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October 27, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Subject: Price Cap Performance Review for Local Exchange Carriers: Treatment of Video Dialtone Services Under Price Cap Regulation, CC Docket No. 94-1.

Dear Mr. Caton:

Enclosed please find the original and nine copies of the General Services Administration's Comments for filing in the above-referenced proceeding.

Sincerely,

Jody B. Burton

Jody B. Burton
Assistant General Counsel
Personal Property Division

Enclosures

cc: International Transcription Service, Inc.
Ms. Janice Myles, Policy and Program Planning Division

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FEDERAL COMMUNICATIONS COMMISSION
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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Price Cap Performance Review	)	
for Local Exchange Carriers;	)	CC Docket No. 94-1
Treatment of Video Dialtone Services	)	
Under Price Cap Regulation	)	

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COMMENTS OF THE
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October 27, 1995

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Price Cap Performance Review for Local Exchange Carriers; Treatment of Video Dialtone Services Under Price Cap Regulation	)	CC Docket No. 94-1

COMMENTS OF THE
GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA"), on behalf of the Federal Executive Agencies, submits these Comments in response to the Commission's Second Report and Order ("Order") and Third Further Notice of Proposed Rulemaking ("NPRM"), FCC 95-394, released September 21, 1995. In this NPRM, the Commission requested comments and replies on its proposed treatment of video dialtone under price cap regulation.

I. INTRODUCTION

Pursuant to Section 111(a) (1) of the Federal Property and Administrative Services Act of 1949, as amended 40 U.S.C. 759 (a) (1), GSA is vested with the responsibility to coordinate and provide for the procurement of telecommunications services for Federal Executive Agencies ("FEAs"). That Act also allows GSA to delegate responsibility for the procurement of services to individual agencies when there are good reasons for such delegation (40 U.S.C. 759 (b) (3)).

GSA is thus directly or indirectly one of the largest users of telecommunications services in the nation. As a large user of telecommunications services, GSA is concerned that it will be forced to subsidize local exchange carrier ("LEC") implementation of video dialtone services. The Commission explained the LECs' incentive to cross-subsidize video dialtone as follows:

> Because video dialtone is an essential component of multichannel video service that will compete directly with cable television operators and other multichannel video programming providers, LECs may have an incentive to understate the direct costs of the service in order to set unreasonably low prices and engage in cross-subsidization.[1]

GSA believes that the Commission must establish effective price cap rules and accounting safeguards to prevent such cross-subsidization.

GSA submitted Comments in this proceeding on April 17, 1995, and Reply Comments on May 17, 1995. In these filings, GSA urged the Commission to modify its Part 64 Rules to separate video dialtone costs from telephony costs, [2] to establish a separate price cap basket for video dialtone[3] and to add a column to its ARMIS 43-01 Report to record video dialtone revenues and costs.[4] GSA also recommended that video dialtone revenues and costs be excluded from the LEC sharing and low-end adjustment

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[1] Telephone Company - Cable Television Cross-Ownership Rules, Sections 63.54-63.58, CC Docket No. 87-266, Memorandum Opinion and Order on Reconsideration and Third Further Notice of Proposed Rulemaking, FCC 94-269, released November 7, 1994, para. 216.

[2] Reply Comments of GSA, pp. 10-13.

[3] Comments of GSA, pp. 3-4; Reply Comments of GSA, pp. 2-4.

[4] Comments of GSA, p. 7.

calculations.[5]

In its Order, the Commission established a separate price cap basket for video dialtone, [6] but it failed to revise its Part 64 rules and to specify the addition of a separate column to its ARMIS 43-01 Report.[7] The Commission also decided to allow video dialtone revenues and costs to be included in the sharing and low end adjustment calculations until they reach a *de minimis* threshold.[8]

In its NPRM, the Commission invites comments on what this threshold should be, how it should be calculated and how video dialtone costs should be separated from telephony costs according to the Commission's Part 69 rules. GSA will address each of these issues in turn.

II. The Threshold For Excluding Video Dialtone Costs Should Be $500.

As GSA has noted, the establishment of a separate price cap basket for video dialtone can assist the Commission in preventing the cross-subsidization of video dialtone by telephone ratepayers.[9] For this basket to be effective, however, all video dialtone costs must be assigned to it, not just those costs over an arbitrary threshold. Full cost allocation underlies all of the Commission's accounting rules. For example, the

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[5] Comments of GSA, pp. 6-7; Reply Comments of GSA, pp. 8-9.

[6] Order, para. 15.

[7] Id., para. 38.

[8] Id., para. 35

[9] Comments of GSA, pp. 3-4; Reply Comments, pp. 2-4.

Commission's Part 64 accounting rules separate all costs between regulated and nonregulated; the Commission's Part 36 separations rules separate all regulated costs between interstate and intrastate; and the Commission's Part 69 rules allocate all interstate costs to price cap baskets.

These accounting separations are summarized each quarter on the ARMIS 43-01 Report. The establishment of a separate price cap basket for video dialtone must be accompanied by a revision of this report to include a separate column for interstate video dialtone revenues and costs. If this is not done, video dialtone data will continue to contaminate the reported revenues and costs of all other price cap baskets.

Once a separate column is established on the ARMIS 43-01 Report for video dialtone, the question of what the *de minimis* threshold should be for purposes of the sharing and the low end adjustment calculations resolves itself. These calculations should be based upon the data in the telephony price cap basket columns. Since ARMIS rules require data to be rounded to the nearest $1000, any video dialtone amount over $500 will be shown in the video dialtone column and thus excluded from the sharing and low end adjustment calculations.

The Commission's desire to avoid "unnecessary administrative burden" should not lead it to undermine the fundamental fabric of its well-established accounting and reporting systems.[10] These systems are based upon the full allocation of all costs, and there is no cause for an exception in the case of video dialtone. The Commission's concern that the LECs might cross-subsidize their non-regulated services led it to

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[10] NPRM, para. 35.

establish effective accounting safeguards. These safeguards require the separation of all non-regulated costs, regardless of their level. The potential for cross-subsidization is even greater in the case of video dialtone, and the Commission's actions should be at least as forceful.

III. The Threshold for Excluding Video Dialtone Costs Should Be Based Upon Total Costs.

The Commission suggests that the threshold for the exclusion of video dialtone costs could be the amount of dedicated video dialtone investment that would reduce the LEC overall rate of return by a specified amount.[11] Such a trigger would be totally inappropriate.

It is a matter of record that most video dialtone systems require very little dedicated investment and a great deal of shared investment. For example, less than ten percent of Bell Atlantic's investment in its Dover, New Jersey, system represents plant dedicated to video dialtone.[12] If the Commission focuses on dedicated investment alone, it will be measuring the dog by its tail.

There is no reason to take such a view of video dialtone's costs. Once a column is established on the ARMIS 43-01 Report for video dialtone, the Commission will have a complete record of total costs, both investments and expenses, to determine when a

[11] NPRM, para. 40.

[12] Bell Atlantic Tariff F.C.C. No. 10, filed January 27, 1995, Description and Justification. Dedicated broadcast investment per potential subscriber is $74.54 (Workpaper 5-3, Column A). Shared broadcast investment per potential subscriber is $1668.51 (Workpaper 5-3, Column B plus Workpaper 5-4, Columns A, B and C).

carrier has reached its threshold. In the interim, the newly established quarterly ARMIS Report 43-09A will provide a record of total video dialtone costs which can be used for this purpose.[13]

IV. The Allocation of Costs To Video Dialtone Should Be Based Upon Part 36 Rules.

The Commission invites comments "on a method or factor to be used in Part 69 for allocating video dialtone costs to the video dialtone basket."[14] GSA submits that no such method or factor is necessary because the cable and wire facility ("C&WF") costs allocable to video dialtone will already have been isolated as a result of the Part 36 jurisdictional separations procedures. The Part 69 rules need only to be modified to specify the allocation of other costs in proportion to C&WF costs.

The first step in the separation of C&WF costs pursuant to Part 36 is the assignment of the facilities involved to appropriate separations categories.[15] In the case of integrated video dialtone applications, the relevant categories are Category I for telephony to the home and Category 2 for video dialtone to the home. Part 36 requires this assignment to be based upon "conductor cross section" analysis.[16] Since video dialtone facilities are generally a combination of fiber and coax cables, this cross section

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[13] Reporting Requirements on Video Dialtone Costs and Jurisdictional Separations for Local Exchange Carriers Offering Video Dialtone Services, DA 95-2026, AAD No. 95-59, Memorandum Opinion and Order, released September 29, 1995.

[14] NPRM, para. 41.

[15] 47 C.F.R. § 36.151 (c).

[16] Id., § 36.153.

analysis cannot be performed by counting pairs. Instead, the relative bandwidth assigned to telephony and video dialtone should be used to allocate the costs of each cable to Categories 1 and 2.

Once all costs are assigned to categories, the categories are jurisdictionally separated. Twenty-five percent of Category 1 is assigned to interstate.[17] Category 2 is jurisdictionally apportioned on the basis of relative number of minutes of use.[18] Unless interstate and intrastate programming are commingled on the same channel (an unlikely development), this minutes-of-use standard effectively translates into an allocator based on the relative assignment of channels to interstate broadcast versus intrastate pointcast programming. Given these separations pursuant to Part 36, the Part 69 assignment process is relatively straight-forward. Category 1 interstate costs are assigned to the Common Line element.[19] Category 2 interstate video dialtone costs should be assigned to the new video dialtone element. This assignment should be specified in Section 305 of the Commission's Part 69 Rules.

Assignment of circuit equipment costs should then be made to the video dialtone element in the same proportion as the associated C&WF costs pursuant to Section 306 of Part 69. The proportional assignment of general support facilities and expenses to video dialtone can then be made in conformance with the existing Part 69 rules.

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[17] Id., § 36.154.

[18] Id., § 36.155.

[19] Id., § 69.304.

The foregoing discussion demonstrates that existing Part 36 allocations can be used to identify video dialtone costs. GSA remains convinced, however, that a more accurate separation of telephone and video dialtone costs can be achieved through modification of Part 64 of the Commission's rules. But until such a modification is made, the existing Part 36 rules must serve as the determinant of allocation.

The Commission also seeks comment on the implications of allocating costs to the video dialtone basket on a basis different than that used to set video dialtone rates.[20] The rates for video dialtone are evaluated on the "new services test" by which added revenue must cover added cost. This cost test is unsuitable for a continuous reporting procedure because the "added costs", assuming they can be identified, soon become absorbed into the composite plant records of the company.

For this reason it is inevitable that the costs allocated to the video dialtone basket will differ from those that went into the tariff evaluation process. The observation of these differences will be valuable, however, because it will indicate the extent to which actual cost incurrence has conformed to expected cost incurrence.

In the meantime, GSA suggests that the Commission focus its attention on establishing consistent and adequate accounting safeguards to prevent cross-subsidization. Once actual data is available from this process, the Commission can use it to evaluate the adequacy of its rate setting procedures.

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[20] NPRM, para. 41.

V. CONCLUSION

As the agency vested with the responsibility for acquiring telecommunications services on a competitive basis for use of the Federal Executive Agencies, GSA urges the Commission to allocate all video dialtone costs to the video dialtone price cap basket according to its existing Part 36 rules; to modify its ARMIS 43-01 Report format to separately identify these costs; and to exclude these costs from both the sharing and low end adjustment calculations.

Respectfully submitted,

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October 27, 1995

CERTIFICATE OF SERVICE

I Jody B. Burton, do hereby certify that copies of the foregoing "Comments of the General Services Administration" were served this 27th day of October, 1995, by hand delivery or postage paid to the following parties:

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